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The South Carolina Second Injury Fund

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October 14, 1999

Mr. Les Boles
Director
Office of State Budget
1122 Lady Street, 12th Floor
Columbia, SC 29201

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Dear Mr. Boles:

I am pleased to submit the Second Injury Fund Accountability Report for Fiscal Year 1998-1999.

The Second Injury Fund in its present form was created by the Legislature on July 1, 1972. The responsibility of administering the Second Injury Fund was delegated to the Industrial Commission by the Budget and Control Board. When revision of the Industrial Commission occurred in 1974, the Second Injury Fund was given full status as a separate state agency. Currently we are a separate state agency under the Budget and Control Board. Sections 41-7-310 and 42-7-200 outline the mission of the Second Injury Fund.

The Second Injury Fund has one administrative program and a twofold mission. The goals, objectives and performance measures, as outlined in this report, are a result of our efforts to refine and improve our processes and service delivery systems. They directly relate to the mission of the agency and were developed and strongly supported by the executive staff with extensive input from our external and internal customers.

For information or assistance regarding this report, please contact Mike Harris, Director of Management Services, at 798-2722, extension 130.

Yours truly,



Douglas P. Crossman
Director

DPC/bs
Enclosures

Executive Summary

The Fund has one program consisting of two missions. These are the processing and payment of Second Injury Fund and Uninsured Employers' Fund claims.

The goals of the Fund are:

- To protect employers from increased workers' compensation insurance cost.
- Advance the hiring and retention of the disabled.
- To ensure payment of workers' compensation benefits to injured employees whose employers are in violation of the Workers' Compensation Law.

The objectives of the Fund are:

- Prompt determination of eligibility
- Efficient claims processing and payment
- Contain claims cost
- Sound fiscal management

It is important to address several aspects of this report.

1. The number of employers receiving benefits from the Second Injury Fund – 1,753.
2. The number of employees receiving benefits from the Uninsured Employers' Fund – 498.
3. The amount of monies recouped from employers found in violation of the law - \$755,447. This represents approximately 23% of the monies paid by the Uninsured Employers' Fund and is a 12% increase over monies recouped in fiscal year 1997-98.
4. Through our audit of indemnity reimbursements and Medical Fee Schedule reductions, we reduced our fiscal year reimbursements by \$2.5 million, which resulted in \$6.85 million reduction in the annual assessment.

A major self-insured employer filed for bankruptcy during the past year. By way of a Memorandum of Agreement with the Workers' Compensation Commission the Fund agreed to be the administer of all current and future workers' compensation claims pertaining to this employer. The Workers' Compensation Commission called the security bonds for this employer. These bonds equaled approximately \$1.2 million and through our coordination with the Office of Comptroller General the funds were deposited in an interest bearing restricted sub fund to pay these claims. We received 135 claims and made payments on 53 of these claims. If this had been turned over to a third party administrator their costs would have reduced the monies available to pay claims by 25-30%. This agreement between the Fund and the Workers' Compensation Commission prevented a bad situation from becoming worse.

We were asked by a major workers' compensation carrier for assistance in a felony investigation involving reimbursement they received from the Fund. This included coordination between the Fund, Office of Comptroller General, Office of State Treasurer and the Department of Insurance. It was a massive undertaking that included the tracking of every payment made by the Fund to this carrier over the past nine years. This equaled approximately \$30 million. Copies of every check issued had to be produced and copies of file materials furnished. With the assistance of the Fund and the other agencies the United States Attorney's office is in the process of prosecuting the individuals involved.

The Fund works closely with the Workers' Compensation Commission and the Department of Insurance on worker's compensation insurance issues and legislation.

We have a formal agreement with the Department of Revenue to assist us with the recoupment of monies paid by the Uninsured Employers' Fund.

We coordinate with the Commission for the Blind, Department of Disabilities and Special Needs and Vocational Rehabilitation Department to ensure that they make employers and employees aware of the Fund's role in promoting the hiring of disabled citizens.

The primary concern we had at the end of this year was the increase in the number of days needed to process claim payments. Since FY94, we have seen a drastic increase in the number of new claims, claim payments and the total amount paid. New claims have increased by 41%, the number of claims payments by 63% and the total amount paid by 23%. These numbers represent a significant growth in the agency's workload and specifically in the area of the claims section that audits and reviews all reimbursements before final approval and payment. Over the past 5 years, we have been able to absorb these increases through improvements to our processes and the advancements in technology. However, we are no longer able to absorb these increases. We pride ourselves in delivering the best service possible to our customers and the time it takes to process payments has increased from the average of 12.5 days to over 30 days. We feel this is unacceptable for us as a state agency serving the citizens and businesses of South Carolina. We have requested a FTE and funds necessary for the FTE in the FY1999-2000 Budget Request. We feel with the additional FTE we will be able to reduce the number of days to process claims payments and return to giving outstanding service to our customers.

Mission Statement

The Second Injury Fund functions within the South Carolina Workers' Compensation System. The mission of the Fund is twofold.

1. To protect employers from the higher cost of insurance that can occur when an injury combines with a prior disability to result in substantially increased medical or disability costs than the accident alone would have produced. This ensures that an employer is not made to suffer a greater monetary loss

- or increased insurance costs because they hire or retain an employee who has a disability.
2. To ensure payment of workers' compensation benefits to injured employees whose employers have failed to comply with the coverage provisions of the Workers' Compensation Law.

Leadership System

The Agency Director is appointed and serves at the pleasure of the Budget and Control Board. The Executive Staff of the agency consists of the Director of Management Services, Director of Claims, Director of Recoveries and the Chief Counsel.

The Director and all members of the Executive Staff have graduated from the Executive Institute and actively support its ongoing programs.

All staff members have received training in Total Quality Management. They are given the resources (tools, training, time and guidance, etc.) to be highly successful in their work.

The agency's policies and rules are broad and flexible in order to cover all justifiable situations. This encourages an ongoing flow of constructive dialogue with staff members at all levels of the agency. Staff members feel free to discuss work-related problems, opportunities and issues.

All employees are cross-trained in various positions to ensure we maintain our high standards of customer service.

There is a prevailing sense that "we're all in this together." Staff members feel that their work makes a positive difference in some way and that they are genuinely valued by the agency.

Customer Focus and Satisfaction

The requirements of our customers are outlined in Section 42-9-400 of the S.C. Workers' Compensation Law. We must be put on notice of a claim within certain time restraints for Second Injury Fund claims and we must be furnished all information necessary to make a final determination on a claim, be it Second Injury Fund or Uninsured Employers' Fund.

The expectations and preferences of our customers and stakeholders are stated in our objectives:

- Prompt determination of eligibility
- Efficient claims processing and payment
- Contain claims cost
- Open free-flowing communication

- Program flexibility
- Sound fiscal management

We continually strive to meet these expectations. We offer formal training to all carriers and self-insured employers on the proper procedures of submitting a Second Injury Fund claim. We have established a focus group consisting of staff members from the Fund, major insurance carriers, large self-insureds and reimbursement companies. The purpose is to determine the feasibility of the electronic submission of reimbursements. We also have informal training offered to new employees of our customers where they actually sit down with their counterpart at the Fund to learn the "hows and whys" of perfecting a Second Injury Fund claim.

We measure our success in satisfying our customers in the number of claims denied versus the number of claims which we can make a final determination. This equaled less than 2% for this fiscal year. We constantly track the time needed to pay claims. We feel that we must continue to improve our performance in this area.

Description of Programs

- A. Program Name: Second Injury Fund Administration. This program is funded with "other funds" and is authorized 20 FTE's.
- B. Program Rank: 1
- C. Program Cost: The cost of administering the Fund was \$1,275,962. all of which was "other funds". The "other funds" are drawn from the annual assessment levied on all self-insured employers/funds and insurance carriers that paid workers' compensation losses in the state during the preceding calendar year.

For the purpose of this report, the program goals, objectives and results are stated separately for the Second Injury Fund and the Uninsured Employers' Fund. Although they are both under the same program there is a separate mission with distinctly different goals, objectives and results for each fund.

Second Injury Fund Goals, Objectives and Results

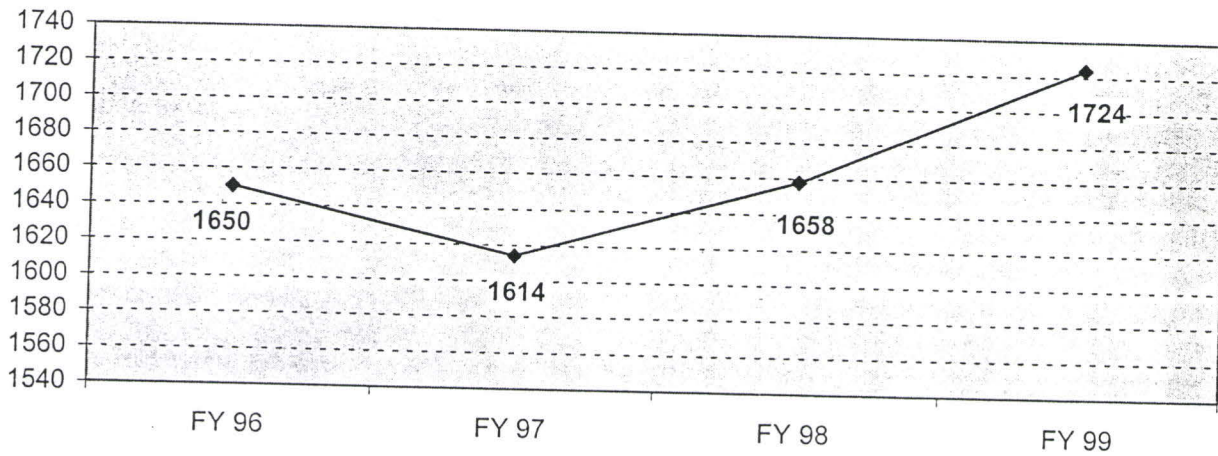
Goal: To protect employers from increased workers' compensation premium costs by accepting a claim within four years of the date of accident.

- Objectives:
- 1) The prompt determination of eligibility
 - 2) The expeditious processing of claim reimbursements
 - 3) Maintaining reasonable claims cost

Results

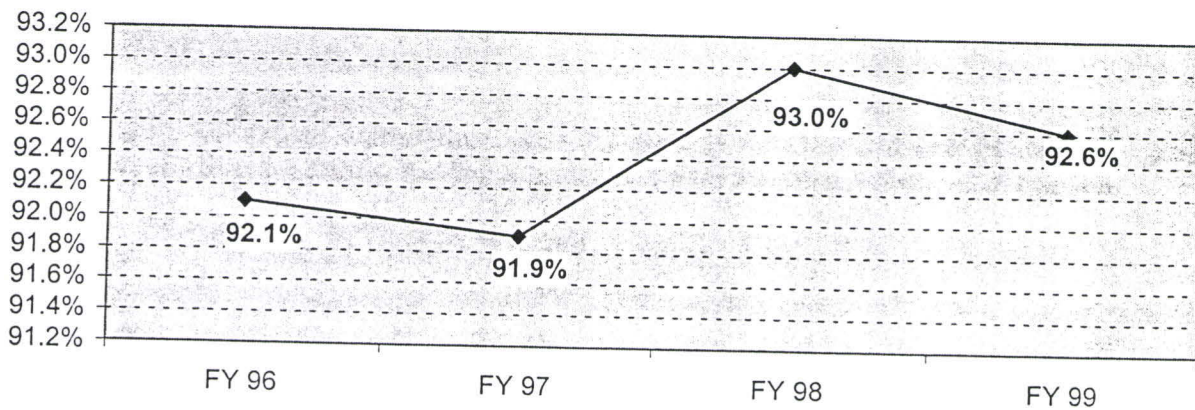
Key indicator: Protection of employers from increased workers' compensation premiums.

Number of Employers Benefitting



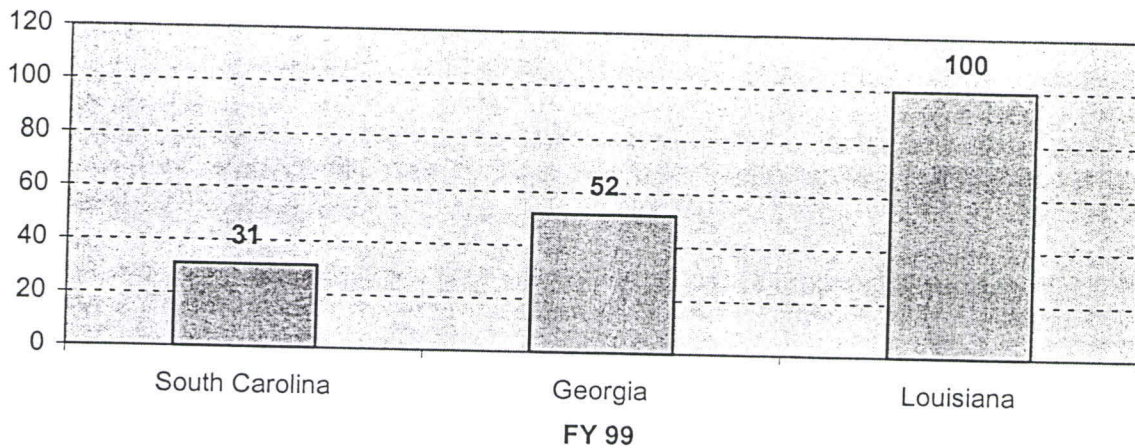
Key indicator: Accepting claims within four years of the date of accident. This will prevent the accident from having a negative affect on the premium calculation.

Percentage of Claims Accepted within 4 Years of the Date of Accident



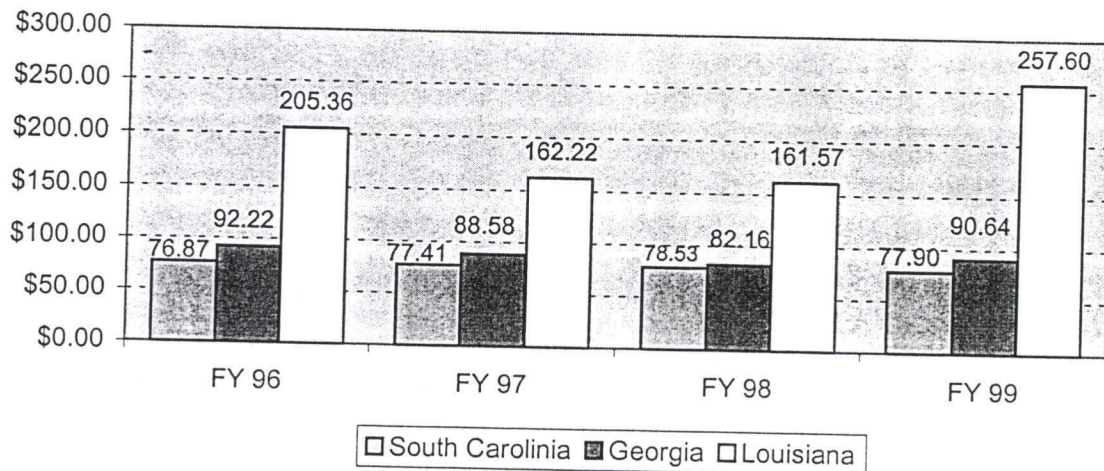
Key indicator: Expeditious processing and payment of claims. We compare our agency with "like" funds from Georgia and Louisiana.

Average Number of Days to Pay Second Injury Fund Claims



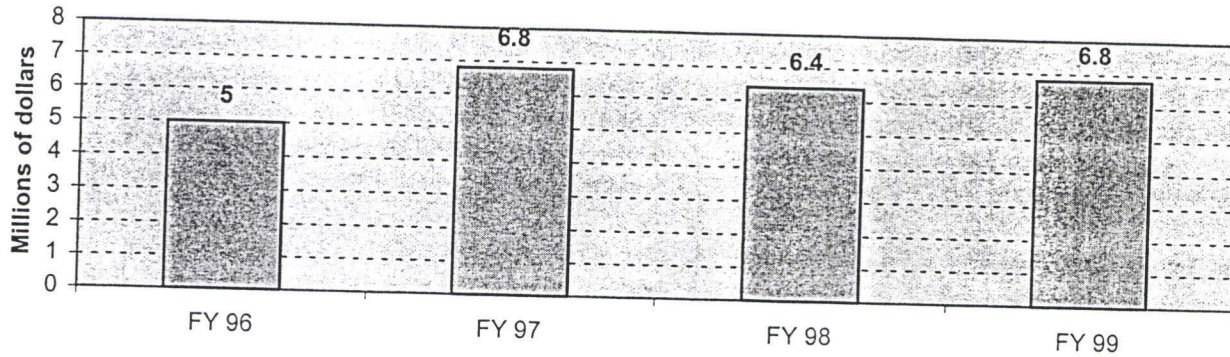
Key indicator: Maintaining reasonable claims costs. We compare our agency with "like" funds from Georgia and Louisiana.

Second Injury Fund Cost per Claim



Key indicator: The audit and validation of all reimbursements to the amount ordered and approved by the Workers' Compensation Commission. The validation of reimbursements directly affects the assessment levied on all fund members.

Reduction in the Annual Assessment



Uninsured Employers' Fund Goals, Objectives and Results

Goals: To ensure payment of workers' compensation benefits to injured employees whose employers are in violation of the law.

Objectives: 1) Determine if the Fund is responsible for coverage

2) Prompt determination whether to pay or defend the claims

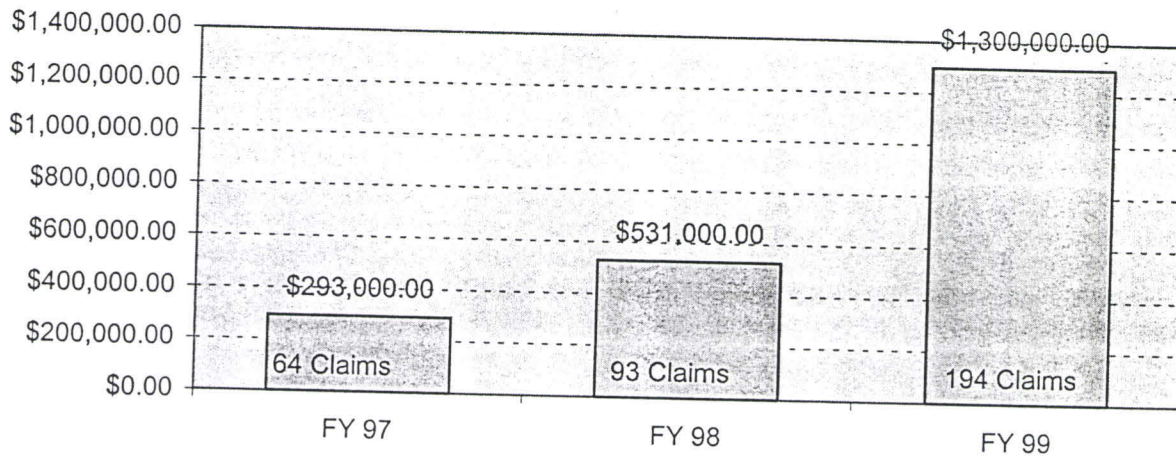
3) Maintain reasonable claims cost

4) Recoupment, from the employers, of at least 25% of the benefits, cost and expenses paid by the Fund

Results

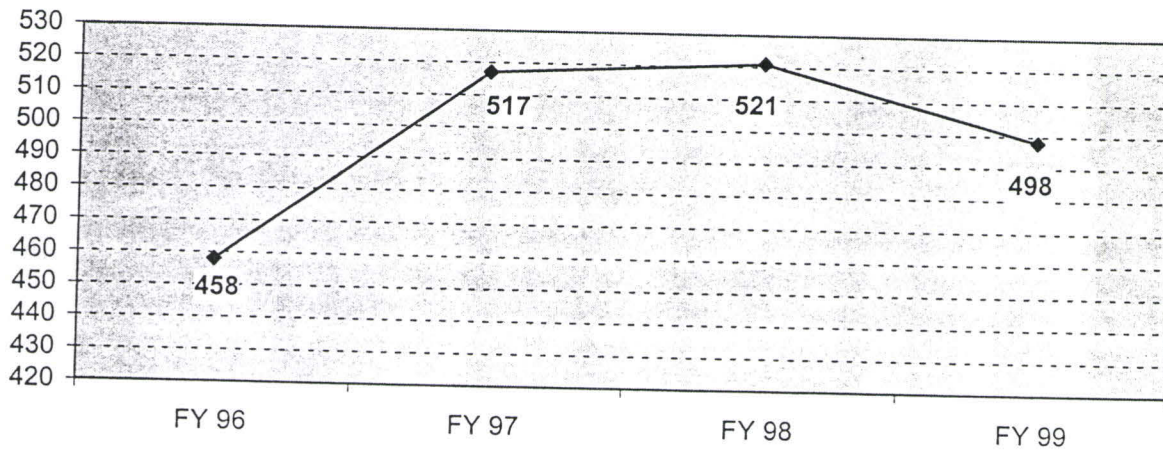
Key Indicator: Determine whether the Fund has the coverage or is there another party responsible. This determination has a direct affect on the amount of monies paid by the Fund.

Savings Resulting from other Coverage Found



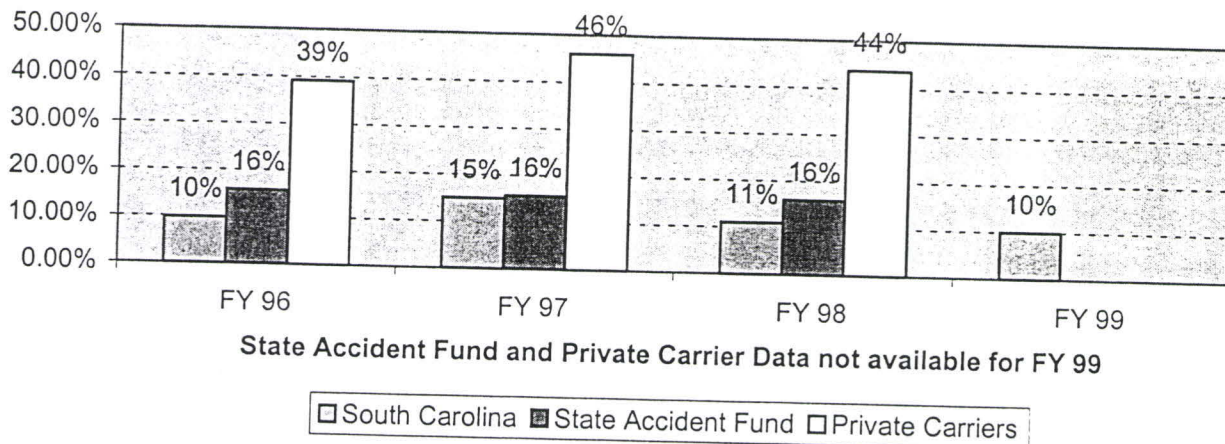
Key Indicator: Payment of workers' compensation benefits to injured employees. This ensures they are not caused to suffer undo hardships, medically or financially because their employer was in violation of the law.

Employees Benefitting



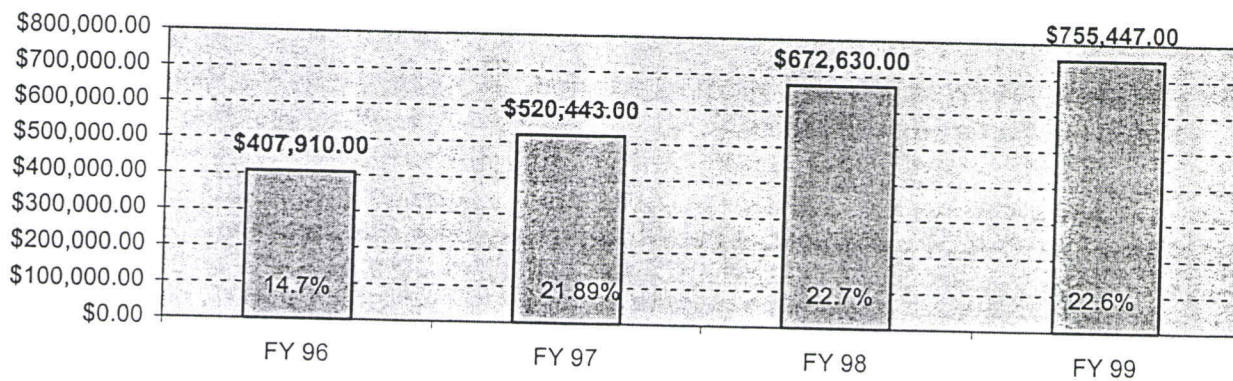
Key Indicator: Maintain a reasonable administrative cost ratio to claims paid. These cost are ultimately recouped from the employers along with the benefits paid on claims. We compare our agency with the State Accident Fund and private carriers.

Uninsured Employers' Fund Administrative Cost Ratio



Key Indicator: Recoupment from the employers of all benefits, expenses and cost paid. Our goal in the past was 15% of monies paid. This was based on recommendations from a prominent collections law firm and The Department of Revenue. We have established procedures to vigorously process collection actions. We have been very successful and have raised our goal to recoup 25% of monies paid.

Recoupment of Monies Paid on Unisured Employers' Fund Claims



We have made every attempt to benchmark our performance with other "like" agencies and private industry. In the instance where we were unable to do this, we used our past years comparison.

We continue to make every effort possible to improve our processes and the use of technological advancements. We work closely with the Office of Information Technology to ensure we remain on the "cutting edge" by continuing to update our software and hardware.

We know that our staff members are one of our most important assets. Their well being, satisfaction and development is a high priority. We strongly support the pay plan outlined in the State Human Resource Regulation. Managers and supervisors are encouraged to administer the Employee Performance Management System in a timely and fair manner. Staff members are always made aware of their job performance throughout the year. When necessary, they receive guidance and training needed to improve performance. We have established a flexible work schedule policy allowing all staff members the choice of flextime or a compressed work week.